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Annual Report 1975

Galt Malleable Iron Limited

TABLE OF CONTENTS

Corporate Directory	1
Report to Shareholders	2
Five Year Review	4
Auditors' Report	5
Consolidated Financial Statements	6
Notes to Financial Statements	10
Associated Company Annual Report	IBC

ANNUAL MEETING

The Annual Meeting of Shareholders of Galt Malleable Iron Limited will be held at 9:30 o'clock in the forenoon, Toronto Time, in Confederation Room No. 3, of the Royal York Hotel, on Thursday, April 29, 1976.

GALT MALLEABLE IRON LIMITED and subsidiary companies

OFFICERS and DIRECTORS - 1975

OFFICERS

DAVID L. CHANDLER,	Chairman of the Board
HUGH C. MACKAY,	<i>Vice-Chairman - Emeritus</i>
DOUGLAS R. McKAY,	President and Chief Executive Officer
FRANK W. SIMPSON,	Secretary-Treasurer
J. DOUGLAS MAJOR,	Vice-President - Group Executive, Casting Divisions

DIRECTORS

DAVID L. CHANDLER, Executive
c/o Garvey, Ferriss
Toronto, Ontario

HAROLD J. MURPHY, Q.C.
Garvey, Ferriss
Toronto, Ontario

DOUGLAS R. McKAY, Executive
Galt Malleable Iron Limited
Cambridge, Ontario

FRANK W. SIMPSON, Executive
Galt Malleable Iron Limited
Cambridge, Ontario

ROBERT W. NAVARRE, President
Simpson Industries Inc.
Litchfield, Michigan

JAMES W. HALLOCK, Director, Casting Sales
U.S. Sales Office
Albion, Michigan

BANKERS

THE ROYAL BANK OF CANADA
Cambridge, Ontario

AUDITORS

THORNE RIDDELL & CO.
Cambridge, Ontario

SOLICITORS

GARVEY, FERRISS
Toronto, Ontario

TRANSFER AGENTS AND REGISTRARS

GUARANTY TRUST COMPANY of CANADA
Toronto, Ontario

Report to Shareholders

EARNINGS AND DIVIDENDS

Earnings, before extraordinary items, in 1975 reached \$991,820 or \$1.52 per share. This is \$.74 per share higher than 1974 and \$.82 higher than 1973.

Favourably contributing to the higher net income was the company's equity in earnings of Bartaco Industries Limited, an associated company. In 1975 this equity amounted to \$273,846 as compared to \$106,243 in 1974.

Galt Malleable assumed management control of Bartaco Industries Limited and its subsidiaries in early 1974 and in order to acquaint you with the financial and operational activities of Bartaco, enclosed is its Annual Report for the period ended September 30, 1975.

Regular quarterly dividends on the Class A and Class B shares were introduced in June 1975. Although compliance with anti-inflation legislation necessitates restraint on additional dividends, it is anticipated that the quarterly dividend policy of \$.10 per Class A share and similar payments less 15% taxes to holders of Class B shares will be maintained.

CAPITAL EXPENDITURES

Capital expenditures in 1975 amounted to \$193,987. This reflects minimum expenditures which are absolutely essential to maintain capacity and operational efficiency.

OPERATIONS

In order to function most effectively, while maintaining maximum efficiency in overhead and manufacturing plans, Galt Malleable is structured into three product divisions:

- The Casting Manufacturing Division
- The General Manufactured Products Division
- The Special Products Division

Each Division includes companies that are either controlled subsidiaries or associated companies over

which Galt Malleable exercises effective management control.

THE CASTING MANUFACTURING DIVISION

The Casting Division is primarily engaged in the production of castings in malleable and ductile iron, with exports chiefly for the United States automotive market. This Division is comprised of three foundries located in Cambridge, Brantford and Orillia, Ontario.

Notwithstanding a reduction in schedule demands, which was occasioned by a drop in automotive and truck production in North America in early 1975, the last quarter of 1975 saw an improvement which has led to this Division being presently loaded to capacity, with operations functioning at very efficient levels.

In the highly competitive North American market for automotive castings, a satisfactory return on investment can only be maintained if vigorous marketing efforts are supported by advanced production equipment and techniques which allow for substantial reductions in unit costs. Based on this consideration, considerable market research is being conducted in order to determine future capacity and the modernization of facilities, which will strengthen this Division and enable it to compete successfully in the diversified areas of the North American castings market.

THE GENERAL MANUFACTURED PRODUCTS DIVISION

Machined products for the leisure trailer market, transportation seating for bus, streetcar and subway, and special purpose automotive machining call for the special blending of skills found within this Division.

The General Manufactured Products Division is a result of the combination of the hardware division of Galt Malleable Iron Limited and the factory division of Bartaco Industries Limited.

This combination has produced a formula for efficiencies in distribution and marketing efforts, as well as the control of overhead and the active programming of new product development.

At the present time, product development is focused on a new seating concept for public transportation vehicles. The Otaco Transit Seating division of Bartaco Industries Limited has developed a new seating system which is called "Innovator I", and which has been favourably received by the North American transportation industry. Your directors consider that this new product holds promise and that future growth in export sales may be anticipated.

THE SPECIAL PRODUCTS DIVISION

Combustion process equipment, moulded plastic products and electrochemically treated metals are but a few of the diverse product areas this Division is engaged in.

The Special Products Division is comprised of Spraymould Limited, Molecritics Canada, Inc. and The Gas Machinery Company (Canada) Limited, a subsidiary of Bartaco Industries Limited.

Spraymould Limited is a controlled subsidiary that is involved with the moulding of thin-walled plastic products directly from powdered plastic by means of electrostatic coating. This company has been concerned with research and development, however management is now directing attention toward active manufacturing and sales. Marketing programs, for plastic food packaging containers, horticultural products such as flower pots and applying the process to mass food service, are being pursued and your directors anticipate the successful growth of this company.

Molecritics Canada, Inc., has developed a unique and specialized process for the electrochemical treatment of metals. This process will have growth

potential in the area of the treatment of such metals as stainless steel and ferrous castings. Management expects that more emphasis will be placed on the development of this specialized product area in the latter part of 1976.

The Gas Machinery Company manufactures and distributes combustion process capital equipment. Notwithstanding a recent reduction of capital programs by various customers, sales for this specialized equipment are being maintained at a strong level.

OUTLOOK

Effective management control coupled with the development of continuing growth programs in all Divisions, will enable Galt Malleable Iron Limited to take full advantage of its marketing ability and its highly competitive production facilities to ensure the continued success of the company.

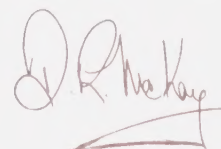
As in previous years, your directors express their appreciation for the loyalty and hard work of all employees during 1975. Special appreciation is extended to Mr. Charles A. Thompson who recently retired as Vice-President, Corporate Development, after 50 years of distinguished service to the Company.

On behalf of the Board of Directors

D. L. Chandler
Chairman



D. R. McKay
President



Cambridge, Ontario
March 22, 1976.

Five Year Financial Review

Statement of Income

	1975	1974	1973	1972	1971
Sales	\$12,179,269	\$13,627,334	\$11,227,003	\$ 9,928,126	\$ 8,360,270
Cost of sales	9,429,849	11,422,916	9,244,465	8,071,737	6,716,742
Gross profit	2,749,420	2,204,418	1,982,538	1,856,389	1,643,528
Sales, financial and administrative expenses	1,491,679	1,465,822	1,149,998	1,020,694	860,542
	1,257,741	738,596	832,540	835,695	782,986
Other Income					
Share of income before extraordinary items of effectively controlled company	273,846	106,243			
Income from other investments	18,596				
Income before undernoted items.	1,550,183	844,839	832,540	835,695	782,986
Income taxes	558,363	333,137	370,849	437,294	410,085
Dividends on preference shares paid to minority shareholders of subsidiary company.				3,000	12,000
Income before extraordinary items	991,820	511,702	461,691	395,401	360,901
Extraordinary items		384,473			
Net income	\$ 991,820	\$ 896,175	\$ 461,691	\$ 395,401	\$ 360,901

Financial and other Information

Working capital	\$ 1,631,991	\$ 1,300,814	\$ 772,739	\$ 1,007,983	\$ 1,060,633
Working capital ratio	1.79:1	1.73:1	1.39:1	1.87:1	1.88:1
Long-term debt	\$ 2,260,830	\$ 2,377,760	\$ 2,248,076	\$ 2,965,265	\$ 3,502,697
Information relating to Class A and B shares					
Number of shares outstanding. .	647,600	652,500	652,500	652,500	652,500
Shareholders' equity	\$ 5,000,501	\$ 4,242,195	\$ 3,426,868	\$ 3,122,448	\$ 2,845,885
Equity per share	\$ 7.72	\$ 6.50	\$ 5.25	\$ 4.79	\$ 4.36
Cash flow per share	\$ 2.32	\$ 1.54	\$ 1.55	\$ 1.45	\$ 1.33
Earnings per share*	\$ 1.52	\$ 1.37	\$.70	\$.60	\$.55
Return on equity	19.7%	21.1%	13.3%	12.5%	12.6%

*Including extraordinary items.

AUDITORS' REPORT

To the Shareholders of
Galt Malleable Iron Limited

We have examined the consolidated balance sheet of Galt Malleable Iron Limited and subsidiary companies as at December 31, 1975 and the consolidated statements of income, retained earnings, contributed surplus and changes in financial position for the year then ended. For the company and its subsidiaries our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For the effectively controlled company accounted for by the equity method, we have relied on the report of the auditors who have examined its financial statements.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Cambridge, Canada
March 1, 1976

Thorne Riddell & Co.

Chartered Accountants

Consolidated

DECEMBER

Assets

	1975	1974
CURRENT ASSETS		
Cash	\$ 118,250	\$ 118,103
Marketable securities, at cost (quoted market value 1975, \$75,539; 1974, \$3,025)	85,832	2,084
Accounts receivable		
Trade	1,439,169	1,651,818
Effectively controlled company	59,559	
Temporary investment, at cost less writedown	530,934	
Inventories (note 2)	1,428,069	1,305,826
Prepaid expenses	34,578	16,676
	<u>3,696,391</u>	<u>3,094,507</u>
INVESTMENT IN OTHER COMPANIES		
Non-consolidated subsidiaries (note 3)	350,701	9,705
Effectively controlled company (note 4)	1,374,615	807,260
	<u>1,725,316</u>	<u>816,965</u>
LIFE INSURANCE, cash surrender value.	<u>32,327</u>	<u>27,927</u>
FIXED ASSETS		
Land	95,079	95,079
Buildings	2,227,708	2,175,225
Machinery and equipment	6,106,877	6,010,697
	<u>8,429,664</u>	<u>8,281,001</u>
Less accumulated depreciation	3,307,655	2,939,617
	<u>5,122,009</u>	<u>5,341,384</u>
DEFERRED CHARGES, less amortization	<u>65,747</u>	<u>47,287</u>
	<u>\$10,641,790</u>	<u>9,328,070</u>

Approved by the board

D. R. McKay, Director

F. W. Simpson, Director

Balance Sheet

1975

Liabilities

CURRENT LIABILITIES

Bank indebtedness (note 5)
Accounts payable and accrued liabilities
Income and other taxes
Principal due within one year on
long-term debt

1975
\$ 500,000
768,307
255,192
540,901
2,064,400
2,260,830

1,255,359

1974
\$ 210,000
1,087,409
127,620
368,665
1,793,694
2,377,760

853,721

LONG-TERM DEBT (note 6)

DEFERRED INCOME TAXES

Shareholders' Equity

CAPITAL STOCK (note 7)

Authorized

2,828 6% Cumulative sinking fund first preference shares,
par value \$100, redeemable at up to \$105 per share
779 6¼% Cumulative participating second preference shares,
par value \$100, redeemable at up to \$105 per share
999,500 Class A shares without par value
999,500 Class B shares without par value
1,000 Common shares without par value

Issued

328 First preference shares
279 Second preference shares
647,600 Class A and Class B shares.

32,800
27,900
627,951
688,651

101,552

4,270,998
5,061,201

\$10,641,790

32,800
27,900
632,702
693,402

131,865

3,477,628
4,302,895

\$ 9,328,070

CONTRIBUTED SURPLUS

RETAINED EARNINGS

UNFUNDED PENSION COMMITMENT (note 8)

Consolidated Statement of Income

YEAR ENDED DECEMBER 31, 1975

	1975	1974
Sales	\$12,179,269	\$13,627,334
Cost of goods sold	9,429,849	11,422,916
Gross profit	2,749,420	2,204,418
Selling, financial and administrative expenses (including interest on long-term debt: 1975, \$242,352; 1974, \$243,136)	1,491,679	1,465,822
	<u>\$1,257,741</u>	<u>\$ 738,596</u>
Other income		
Share of income before extraordinary items of effectively controlled company ..	273,846	106,243
Income from other investments	18,596	
	<u>292,442</u>	<u>106,243</u>
Income before income taxes and extraordinary items	<u>1,550,183</u>	<u>844,839</u>
Income taxes		
Current	156,725	116,209
Deferred	401,638	216,928
	<u>558,363</u>	<u>333,137</u>
Income before extraordinary items	<u>991,820</u>	<u>511,702</u>
Extraordinary items		
Provision for decline in value of advances receivable from non-consolidated subsidiary company	(125,000)	
Writedown of temporary investment	(47,579)	
Profit on sale of investments		307,538
Profit on sale of a division of effectively controlled company	17,157	
Income tax reduction realized on carry-forward of prior years' income tax losses of effectively controlled company	155,422	76,935
	<u>Nil</u>	<u>384,473</u>
NET INCOME	<u>\$ 991,820</u>	<u>\$ 896,175</u>
EARNINGS PER CLASS A AND CLASS B SHARE		
Before extraordinary items	<u>\$1.52</u>	<u>\$.78</u>
After extraordinary items	<u>\$1.52</u>	<u>\$1.37</u>

Consolidated Statement of Retained Earnings

YEAR ENDED DECEMBER 31, 1975

	1975	1974
BALANCE AT BEGINNING OF YEAR	\$3,477,628	\$2,662,426
Net income	991,820	896,175
	<u>4,469,448</u>	<u>3,558,601</u>
Dividends on		
Preference shares	4,340	4,208
Class A and Class B shares including 15% tax on undistributed income	194,110	76,765
	<u>198,450</u>	<u>80,973</u>
BALANCE AT END OF YEAR	<u>\$4,270,998</u>	<u>\$3,477,628</u>

Consolidated Statement of Contributed Surplus

YEAR ENDED DECEMBER 31, 1975

	1975	1974
BALANCE AT BEGINNING OF YEAR	\$ 131,865	\$ 131,740
Discount on preference shares purchased for cancellation		125
Premium on purchase for cancellation of Class A and Class B shares including tax related thereto	(30,313)	
BALANCE AT END OF YEAR	<u>\$ 101,552</u>	<u>\$ 131,865</u>

Consolidated Statement of Changes in Financial Position

YEAR ENDED DECEMBER 31, 1975

WORKING CAPITAL DERIVED FROM	1975	1974
Operations		
Income before extraordinary items	\$ 991,820	\$ 511,702
Items not involving working capital		
Depreciation and amortization	385,689	394,574
Deferred income taxes	401,638	216,928
Discount on bonds purchased for cancellation	(520)	(11,095)
Equity in income before extraordinary items of effectively controlled company	(273,846)	(106,243)
	<u>1,504,781</u>	<u>1,005,866</u>
Proceeds from long-term bank loan	500,000	600,000
Proceeds from sale of investments		565,038
Sale of fixed assets	31,726	16,981
	<u>2,036,507</u>	<u>2,187,885</u>
WORKING CAPITAL APPLIED TO		
Acquisition of shares in effectively controlled company	120,930	624,082
Investment in non-consolidated subsidiaries	465,996	9,705
Writedown in temporary investment	47,579	
Additions to fixed assets	193,987	462,135
Long-term debt paid or included in current liabilities	616,410	459,221
Dividends including tax on undistributed income	198,450	80,973
Purchase for cancellation of Class A and Class B shares including tax related thereto	35,065	
Other	26,912	23,695
	<u>1,705,329</u>	<u>1,659,811</u>
INCREASE IN WORKING CAPITAL	331,178	528,074
WORKING CAPITAL AT BEGINNING OF YEAR	<u>1,300,813</u>	<u>772,739</u>
WORKING CAPITAL AT END OF YEAR	<u>\$1,631,991</u>	<u>\$1,300,813</u>

Notes to Consolidated Financial Statements

YEAR ENDED DECEMBER 31, 1975

1. ACCOUNTING POLICIES

a) Basis of consolidation

The consolidated financial statements include the accounts of the 80% owned subsidiary company, Molectrics Canada Inc. The accounts of the 51% owned companies, Spraymould Limited and Spraymould (Bahamas) Limited have not been consolidated (see note 3 (a)).

b) Inventories

Raw materials and supplies and finished goods purchased for resale are valued at lower of cost and replacement cost. Work in process and finished goods manufactured are valued at lower of cost and net realizable value.

c) Investment in other companies

The investment in the 51% owned non-consolidated subsidiaries, Spraymould Limited and Spraymould (Bahamas) Limited is recorded at cost less provision for decline in value of advances.

The investment in the effectively controlled company, Bartaco Industries Limited, is recorded on the equity basis. The investment on the balance sheet is therefore stated at cost plus the company's share of undistributed earnings since acquisition and the statement of income includes the company's share of income for the year.

d) Fixed assets

Buildings, machinery and equipment are stated at appraised values at May 3, 1956, with subsequent additions at cost. All other fixed assets are stated at cost. Depreciation is provided on the straight-line basis using the following annual rates which are intended to write off the cost of the assets over their estimated useful lives.

Buildings.	4%
Machinery and equipment	5-10%
Automotive equipment	20%

e) Deferred charges

Long-term debt issue costs are amortized over the original lives of the related debt. Deferred development charges relating to items currently in the development stage are stated at cost less sales revenue therefrom.

f) Income taxes

Deferred income taxes arise from claiming depreciation and other items for tax purposes in amounts differing from those recorded in the accounts.

g) Pension plans

Current service costs are charged to income as they accrue. The unfunded past service liability is being charged to income in annual amounts as set out in note 8.

2. INVENTORIES

	1975	1974
Raw materials and supplies.	\$ 577,635	\$ 656,483
Work in process.	328,392	366,137
Finished goods		
Manufactured.	384,325	128,660
Purchased for resale.	137,717	154,546
	<u>\$1,428,069</u>	<u>\$1,305,826</u>

3. INVESTMENT IN NON-CONSOLIDATED SUBSIDIARIES

a) The company has operational control of Spraymould Limited and Spraymould (Bahamas) Limited and is committed to contribute its management expertise to their operations.

Should Galt give up its operational control it would be required to relinquish its shares in the Spraymould companies. Accordingly the accounts of these controlled subsidiaries have not been consolidated in these financial statements.

b) Galt has guaranteed bank advances to Spraymould of \$159,000 at December 31, 1975, and while it retains operational control, is committed to the guarantee of further advances and interest thereon for the financing of Spraymould operations.

- c) Spraymould is in the research and development stage of its corporate existence and all expenses net of government grants and sales revenue have been treated as deferred charges. The ultimate worth of the assets shown in the following summary of financial data and the company's investment in Spraymould is dependent on the successful development of the production process, suitable financing and subsequent sales or royalty agreements at adequate prices. A provision for decline in value of advances to Spraymould in the amount of \$125,000 has been reflected in the accounts of the company at December 31, 1975.

The investment consists of:

	1975	1974
Shares, at cost (51% owned in 1975 and 1974)	\$ 9,705	\$ 9,705
8% Advances maturing July 31, 1982 less provision for decline in value	340,996	
	<u>\$350,701</u>	<u>\$ 9,705</u>

Spraymould Limited, summary of financial data:

	June 30, 1975 Audited	December 31, 1975 Unaudited
Current assets	\$ 139,615	\$ 238,186
Receivable from affiliate	31,339	36,242
Fixed assets, net of depreciation	268,945	298,931
Deferred charges	1,981,202	2,130,221
	<u>\$ 2,421,101</u>	<u>\$ 2,703,580</u>
Current liabilities	\$ 245,220	\$ 194,404
Long-term debt	2,038,381	2,371,676
Capital stock	137,500	137,500
	<u>\$ 2,421,101</u>	<u>\$ 2,703,580</u>

Spraymould (Bahamas) Limited is currently inactive. Its assets and liabilities are not material.

4. INVESTMENT IN EFFECTIVELY CONTROLLED COMPANY

	1975	1974
Cost of shares of Bartaco Industries Limited (35.5% owned; 32.5% in 1974)	\$ 745,012	\$ 624,082
Share of undistributed earnings since acquisition	629,603	183,178
	<u>\$ 1,374,615</u>	<u>\$ 807,260</u>

Subsequent to December 31, 1975 the company purchased an additional 67,000 shares (2.7%) of Bartaco Industries Limited at a cost of \$120,600.

5. BANK INDEBTEDNESS

Bank indebtedness is secured by an assignment of book debts and inventories.

Notes to Consolidated Financial Statements (Continued)

6. LONG-TERM DEBT

	1975	1974
5¼% First mortgage sinking fund bonds due July 1, 1976	\$ 104,000	\$ 130,500
Less sinking fund cash	33,665	25,671
	<u>70,335</u>	<u>104,829</u>
5½% General mortgage sinking fund bonds due July 1, 1981	154,000	157,000
7¼% Debenture due July 15, 1982	1,271,900	1,465,100
10% First mortgage bonds due June 15, 1982	405,496	469,496
Bank loans, payable \$100,000 semi-annually, due 1980	900,000	550,000
	<u>2,801,731</u>	<u>2,746,425</u>
Less principal included in current liabilities	540,901	368,665
	<u>\$ 2,260,830</u>	<u>\$ 2,377,760</u>

The bonds and debenture are secured by the parent company's fixed assets and by floating charges on all its assets and undertakings. The bank loans are secured by an assignment of shares in the effectively controlled company and the temporary investment.

The company has agreed to certain regulation of the following activities:

- a) Investments
- b) Purchase and disposal of fixed assets
- c) Issue of long-term debt
- d) Issue and redemption of capital stock

Principal due on long-term debt within each of the next five years is as follows:

1976	\$540,901
1977	\$487,434
1978	\$489,097
1979	\$490,851
1980	\$392,702

7. CAPITAL STOCK

Effective May 12, 1975 the company reclassified all existing 2,000,000 Common shares into 999,500 Class A shares, 999,500 Class B shares and 1,000 Common shares. The 652,500 Common shares then issued and outstanding were reclassified as Class A shares.

The Class A and Class B shares are interconvertible and the Class B shares are eligible for tax deferred dividends. Such dividends are effectively reduced by the company's tax cost related thereto. In all other respects the rights of the Class A, Class B and Common shares are identical.

During 1975, 4,900 Class A and Class B shares were purchased and cancelled.

8. UNFUNDED PENSION COMMITMENT

The most recent independent actuarial report indicates that the liability for unfunded past service pension benefits not provided for in the accounts at December 31, 1975 is approximately \$105,279. It is the company's intention to fund this liability by annual instalments (including interest) of \$30,397 through 1977 and thereafter of \$16,625 through 1988.

9. RESTRICTIONS ON DIVIDENDS

The company is subject to the provisions of the Anti-Inflation Act which provides, as from October 14, 1975, for the restraint of dividends.

10. OTHER STATUTORY INFORMATION

	1975	1974
Direct remuneration of directors and senior officers	\$136,123	\$139,968
Depreciation and amortization	385,689	394,574



Galt Malleable Iron Limited

Head Office: P.O. Box 396, Cambridge (Galt) Ontario, N1R 5V8

PRINCIPAL OPERATING PLANTS:

Cambridge:

Galt Malleable Iron Limited—Foundry Division

Galt Malleable Iron Limited—Hardware Division

Brantford:

Galt Malleable Iron Limited—Foundry Division

CONTROLLED SUBSIDIARIES

Waterloo:

Spraymould Limited

Molectrics Canada Incorporated

ASSOCIATED COMPANIES

Orillia:

Bartaco Industries Limited

Otaco Limited—Foundry Division

Otaco Limited—Factory Division

Otaco Industries Limited—Transit Seating Division

Rexdale:

The Gas Machinery Company (Canada) Limited

Wayne Forge Limited

